

Message Text

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3948

INFO AMEMBASSY BRASILIA

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 1321

DEPT PASS EXIMBANK FOR WALTER SAUER

E.O. 11652: GDS

TAGS: EMIN, ENRG, PFOR, PE, EFIN

SUBJECT: TRANS-ANDEAN PIPELINE - HAMMER OF OXY VISITS
AMBASSADOR

REF: LIMA 801, LIMA 691, STATE 190019 (ALL NOTAL)

1. ARMAND HAMMER, CHAIRMAN OF OCCIDENTAL PETROLEUM, DAVID MILLER, PRESIDENT OF OXY'S PERUVIAN SUBSIDIARY, AND LOCAL OXY MANAGER CALLED ON THE AMBASSADOR THE MORNING OF FEBRUARY 13 TO REVIEW THE AFTERMATH OF LAST WEEK'S CIVIL STRIFE AND TO DISCUSS THE CURRENT STATUS OF OXY'S NEGOTIATIONS WITH THE GOP.

2. AFTER BRIEFLY REVIEWING POLITICAL SITUATION AND NOTING THAT THE GRIEVANCES OF THE GUARDIA CIVIL HAVE NOT YET BEEN SETTLED, THE DISCUSSION QUICKLY TURNED TO HAMMER'S PLANS FOR PERU. HAMMER SAID THAT HE IS VISITING LIMA TO CONCLUDE NEGOTIATIONS ON THE THROUGH-PUT COST OF OXY OIL IN THE PETROPERU MAINLINE AND TO ASCERTAIN, TO THE EXTENT POSSIBLE, GOP'S
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INTENTIONS IN REGARD TO ITS BUILDING OF OXY'S SPUR LINE.

3. PERU'S RESERVES - HAMMER SAID THAT OXY HAS 200 MILLION BBLs. OF PROVED RESERVES IN SIX FIELDS, WITH SIX OTHER FIELDS CURRENTLY BEING DRILLED. HE SAID THAT PERTOPERU CLAIMS TO HAVE 263 MILLION BBLs. OF PROVED RESERVES, BUT THAT OXY BELIEVES THIS FIGURE TO BE GREATLY EXAGGERATED. HE NOTED THAT NONE OF THE OTHER FOREIGN OIL COMPANIES HAVE YET FOUND OIL, THAT UNION HAS JUST DRILLED ITS FOURTH DRY HOLE AND IS ACTIVELY CONSIDERING PULLING OUT.

4. EXIM BANK ROLE AND THE OXY FEEDER-LINE - THE AMBASSADOR EXPLAINED THAT HE HAD DISCUSSED THE POSSIBILITY OF EXIM BANK FINANCING AN APPROXIMATELY \$100 MILLION LOAN FOR THE PROJECT WITH WALTER SAUER WHEN HE WAS IN WASHINGTON IN JANUARY AND EMPHASIZED TO HAMMER THAT THE USG HAS NO "POLITICAL PROBLEMS" WITH LOANING THE MONEY TO PERU, IF THE PROJECT IS ECONOMICALLY FEASIBLE. HE ALSO TOLD HAMMER THAT THE EMBASSY HAD SO INFORMED COFIDE AND PETROPERU DURING DESK OFFICER CORRY'S VISIT LAST MONTH. HE ALSO EXPLAINED THAT EXIM WOULD BE WILLING TO ACCEPT THE WORK OF SCIENTIFIC SOFTWARE CORP. AND SAID FURTHER THAT THE GOP HAS PROMISED US ALL THE BASIC FEASIBILITY DATA FOR EXIM'S CONSIDERATION DURING THIS MONTH. HAMMER WAS PLEASED TO LEARN OF EXIM'S CONTINUING INTEREST AND EXPRESSED THE HOPE THAT THE LOAN COULD BE WORKED OUT ASAP.

5. HAMMER THEN EXPLAINED THAT OXY HAS NO INTENTION OF FINANCING ITS OWN FEEDER-LINE SINCE THE ADDITIONAL EXPENSE WOULD BE EXCESSIVE. HE GAVE THE FOLLOWING BREAKDOWN OF OXY'S CURRENT AND PLANNED INVESTMENT IN PERU: A) PRESENT INVESTMENT - \$80 MILLION, INCLUDING \$17 MILLION FOR SEISMIC WORK WHICH HAMMER NOTED IN PASSING WAS FAR IN EXCESS OF WHAT THE OTHER COMPANIES HAVE SPENT (HE CLAIMED THAT THIS EXPENSE WAS WELL JUSTIFIED SINCE OXY IS THE ONLY COMPANY TO HAVE FOUND OIL); AND B) DEVELOPMENT INVESTMENT - \$340 MILLION TO DEVELOP OXY'S PRESENT STRUCTURES (THIS DOES NOT INCLUDE MILLER'S ESTIMATE OF \$100 MILLION FOR THE CONFIDENTIAL

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OXY FEEDER-LINE). WE TOLD HAMMER THAT WE UNDERSTOOD THE GOP IS PRESENTLY COMMITTED TO BUILDING THE OXY FEEDER-LINE ITSELF, BUT THAT THERE IS CONCERN WITHIN THE GOP THAT THE ADDITIONAL DEBT MIGHT BE IN EXCESS OF WHAT THE GOP IS CURRENTLY WILLING TO COMMIT TO OIL. MILLER SAID HE HAD HEARD THE SAME THING, BUT THAT CURRENTLY THE OXY-PERTOPERU DISCUSSIONS HAVE ASSUMED THAT THE GOP WILL BUILD THE OXY FEEDER-LINE. ALL THE OXY

OFFICIALS EMPHASIZED THAT THE GOP'S DELAY IN MAKING A FINAL DECISION ON THE FEEDER-LINE WILL BE VERY COSTLY TO PERU.

6. OXY'S CALCULATIONS OF REVENUE GENERATION BY OXY FIELDS AND THE TARIFF COSTS - IN THIS REGARD, HAMMER AND MILLER THEN TOLD US THAT WHEN ON LINE, OXY WILL BE ABLE TO PRODUCE 100,000 B/D ON THE BASIS OF THE PRESENT SIX STRUCTURES. AT \$10 PER BBL. THIS WOULD MEAN \$180 MILLION A YEAR IN FOREIGN EXCHANGE REVENUE FOR PERU (ON 50-50 SPLIT BASIS). SHOULD THE GOP FAIL TO MAKE A DECISION SOON ON THE OXY FEEDER-LINE, ITS CONSTRUCTION WOULD BE DELAYED FROM 1977 TO 1979, THUS COSTING PERU OVER \$300 MILLION IN EXCHANGE. FURTHER, OXY AND PETROPERU HAVE AGREED IN PRINCIPLE TO A TARIFF FEE OF \$1.10 PER BBL. FVD OXY'S RIGHT TO SHIP ITS OIL THROUGH PETROPERU'S MAIN LINE. (\$20 MILLION ANNUALLY FOR SHIPPING OXY'S SHARE OF 50,000 B/D THROUGH THE PIPELINE.) THIS REVENUE WOULD ALSO BE LOST TO PERU IF OXY'S LINE IS NOT COMPLETED IN 1977. GIVEN THESE STATISTICS, HAMMER STRESSED THAT PETROPERU IS "TOTALLY" DEPENDENT ON OXY'S LINE TO MAINTAIN THE ECONOMIC FEASIBILITY OF THE PROJECT.

7. OXY'S BARGING OPERATION TO BRAZIL - OXY, ACCORDING TO HAMMER, HAS COMPLETED CONSTRUCTION OF A SMALL PIPE-LINE FROM ITS FIELDS TO THE TIGRE RIVER, ABOVE QUITOS. OXY WITHIN THE NEXT MONTH WILL HAVE 24 BARGES AND 16 TUGS READY TO MOVE 10,000 B/D TO QUITOS AND THEN TO MANAUS FOR THE BRAZILIAN MARKET. HAMMER SAID WITHIN THE NEXT YEAR OXY HOPES TO EXPAND ITS RIVER FLEET WITH THE EVENTUAL GOAL OF BARGING 30,000 B/D TO MANAUS.

8. HAMMER CALL ON PRIME MINISTER MORALES BERMUDEZ -
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HAMMER SAID HE WAS CALLING ON THE PRIME MINISTER ON THURSDAY, FEBRUARY 13, AND, IN MY PRESENCE, ORDERED HIS COLLEAGUES TO PREPARE A SHORT BRIEFING PAPER WHICH HE WOULD LEAVE WITH THE PRIME MINISTER COVERING THE FOLLOWING POINTS: A) NEED FOR RESOLUTION ON OXY FEEDER-LINE; B) EXIM PREPARED TO ASSIST PROJECT, "WITHOUT POLITICAL CONSIDERATIONS," BUT DATA PROMISED ORIGINALLY IN AUGUST 1974 HAS NOT YET BEEN PROVIDED TO EXIM; C) OXY IS ABOUT TO START BRAZILIAN BARGING OPERATION IF GOP IS WILLING TO GRANT IMMEDIATE APPROVAL.
DEAN

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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TO SECSTATE WASHDC 3949

INFO AMEMBASSY BRASILIA

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 1321

DEPT PASS EXIMBANK FOR WALTER SAUER

9. STANDARD OF INDIANA TAKEOVER OF OXY THWARTED - IN RESPONSE TO A QUESTION, HAMMER SAID THAT OXY HAD OVERCOME AMOCO'S BID TO TAKE IT OVER. "THE OPPOSITION HAS COLLAPSED," HE SAID, NOTING THAT AMOCO'S EFFORT IS NOW A DEAD ISSUE. HE SAID THAT THE FACT OF THE AMOCO-OXY CONFRONTATION HAD BEEN KNOWN TO THE GOP AND MAY HAVE BEEN ONE OF THE FACTORS (ALTHOUGH A RELATIVELY MINOR ONE) TO EXPLAIN THE GOP'S RECENT HESITANCY IN REACHING AN AGREEMENT WITH OXY ON THE TARIFF AND FEEDER-LINE ISSUES.

10. COMMENT: PARADOXICALLY, OXY'S OWN ESTIMATES OF ITS PROVEN RESERVES ARE LESS THAN THE ESTIMATE GIVEN TO US BY COFIDE (300 MILLION BBLs. - SEE LIMA 801). HOWEVER, OXY TENDS TO DISCOUNT PETROPERU'S POTENTIAL, PROBABLY PARTIALLY AS A NEGOTIATING TACTIC, ALTHOUGH OXY MAY IN FACT ACTUALLY BELIEVE THEIR FIELDS POSSESS MORE OIL THAN PETROPERU'S. THEY ADMITTED THAT IN FACT THEY HAVE NO FIRM FIGURES ON PETROPERU'S FIELDS. HAMMER, WHILE CONCERNED ABOUT THE POLITICAL REPERCUSSIONS OF LAST WEEK'S CIVIL STRIFE, APPEARS PREPARED TO GO
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AHEAD WITH HIS MASSIVE INVESTMENT PROGRAM IF FINAL AGREEMENT ON THE SPUR LINE AND THE TARIFF ARE REACHED. HAMMER WILL REMAIN IN PERU UNTIL SATURDAY, FEBRUARY 15, AND MILLER WILL REMAIN HERE NEXT WEEK TO ROUND OUT THE DETAILS OF THEIR DISCUSSIONS. EMBASSY OFFICER WILL FOLLOW UP WITH MILLER NEXT WEEK AND REPORT RESULTS OF HAMMER'S DISCUSSIONS AS AVAILABLE.

11. FOR BRASILIA: WE WOULD APPRECIATE ANY INFORMATION YOU MAY HVE ON PERUVIAN-BRAZILIAN OIL ARRANGEMENT, AND WHETHER IN FACT THE GOP EXPECTS PERUVIAN OIL TO BE SHIPPED TO MANAUS IN THE NEAR FUTURE.
DEAN

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